

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**Zero Waste Energy, LLC
Application No. 12-SM012**

November 13, 2012

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Zero Waste Energy, LLC

Location – Marina (Monterey County)

Industry – Biogas Capture and Production

Project – New Biogas Capture and Production Facility

Value of Qualified Property – \$1,187,000

Estimated Sales and Use Tax Exclusion Amount² – \$96,147

Estimated Net Benefits – \$17,054

Application Score³ –

Fiscal Benefits Points:	989
<u>Environmental Benefits Points:</u>	<u>189</u>
Net Benefits Score:	1,177

<u>Additional Benefits Points:</u>	<u>10</u>
Total Score:	1,187

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.1%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Zero Waste Energy, LLC (“Zero Waste” or “Applicant”) was established on January 2010 in California and is based in Lafayette, Contra Costa County. Zero Waste is a development company that designs, builds, and operates integrated solid waste facilities throughout North America. Zero Waste recovers material for recycling and reuse, while transforming organic waste into green energy through an anaerobic digestion dry fermentation process.

In addition to the current project under consideration, the Applicant has a different project that was previously approved by the CAEATFA Board on November 15, 2011. The first project is larger than the current project proposal; however, both projects utilize the same biogas capture and production technology.

The ownership structure of Zero Waste is described in Attachment A.

The major shareholders (10.0% or greater) of Zero Waste Energy, LLC are:

- Zero Waste Energy Development Co.
- Emerging Acquisitions, LLC
 dba Bulk Handling Systems
- Eric Herbert (CEO)

The corporate officers of Zero Waste Energy, LLC are:

- Eric Herbert – CEO
- Jeff Draper – CFO

THE PROJECT

Zero Waste plans to construct a facility (the “Facility”) which will use a modular batch anaerobic digestion system to take organic materials and, using a dry fermentation process, produce and capture methane from the controlled composting and processing of those materials (the “Project”). The methane produced will fuel a generator. Power from the generator will be used internally and the excess will be sold to the Monterey Regional Waste Management District. Organic materials for the Project will include source separated organics, intake pipe waste from the adjacent Regional Wastewater Treatment Facility, biosolids, materials recovery facility residuals, yard waste and other waste materials diverted from landfills. The Project will handle approximately 5,000 tons of organic materials per year.

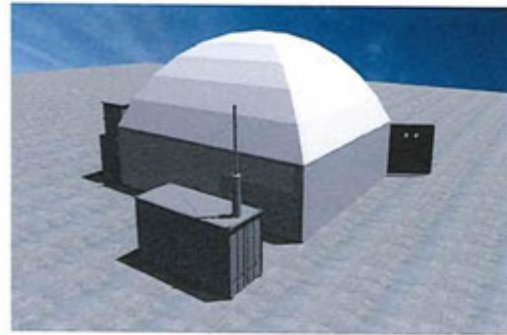
The biogas will be produced by four dry anaerobic digesters. The air from the facility will be processed through an air circulation and control system that effectively contains, circulates and exhausts air as necessary through a specially designed bio-filter to control odors.

The Project Facility will be approximately 5,000 square feet and will be located on the Monterey Regional Waste Management District Landfill and Recycling Facilities site.

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PERSPECTIVE VIEW - FRONT



PERSPECTIVE VIEW - BACK

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture the biogas and also include a portion of the power generation equipment used to power the facility. The equipment attributable to the power generation sold to the Monterey Regional Waste Management District is not included in this Application.⁴

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Sub-Grade Excavation Equipment and Pre-Cast Percolate Tank	\$ 180,000
SMARTFERM Plant Fabrication	900,000
Piping and Duct Work	24,000
Enclosed Aeration Bay	39,000
100 KW CHP Sytem	29,000
Mechanical/Electrical Installation	15,000
Total	<u>\$1,187,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the conveyance/reconveyance agreement a finalized project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons.

⁴ The CHP cost represented herein equals 10% of the total project CHP cost as it is equal to the amount of power and heat which is required for the Project itself. The balance of power produced will be sold to the Monterey Regional Waste Management District and therefore, the cost associated with that power production is not being included in the amount of expenditures subject to sales and use tax exclusion. This is consistent with CAEATFA evaluation and determination of qualified property.

TIMELINE

The Applicant anticipates beginning and completing construction within the fourth quarter of 2012, with Facility operations commencing immediately after Project completion.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$1,187,000 and the total net benefits are valued at \$17,054 for the Project. The Project received a Total Score of 1,187 points, which exceeds the required 1,000-point threshold; and a total Environmental Benefits Score of 189 points, which exceeds the 100-point threshold.

- A. **Fiscal Benefits (989 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant; which amounts to \$95,062, resulting in a Fiscal Benefits score of 989 points for the Project.
- B. **Environmental Benefits (189 points)**. The Project will result in \$18,139 of total pollution benefits over the life of the Facility, resulting in an Environmental Benefits Score of 189 points for the Project. These benefits derive from (a) the production of biomass fuel, which offsets the need for fossil fuel derived sources of energy and (b) a reduction of methane emissions from material that would otherwise be sent to a landfill.
- C. **Additional Benefits (10 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received 10 additional points.
 1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of one permanent job at its Facility. CAEATFA estimates that the one job will not be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 2. **Construction Jobs (10 of 20 points)**. The Applicant's Project will support a total of four construction jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Construction Jobs Score of 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project will be located at the Monterey Regional Waste Management District recycling and landfill facility and has received all necessary use, air and foundation permits to allow Facility construction.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁵ the Applicant has paid CAEATFA an Application Fee of \$593.50 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 12-SM012 for Zero Waste Energy, LLC’s purchase of Qualified Property in an amount not to exceed \$1,187,000, anticipated to result in an approximate sales and use tax exclusion value of \$96,147.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH ZERO WASTE ENERGY, LLC**

November 13, 2012

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Zero Waste Energy, LLC** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement transferring title of Project equipment with an estimated cost not to exceed \$1,187,000 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement are now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

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Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant’s Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property conveyance pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(A), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.

Attachment A

Zero Waste Energy LLC Ownership Structure

